Development of a Basic BDS Pricing System for SFD's Non-financial Services Central Sector for the MSME Organic Clusters Project

– Inception Report –

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Basic Approach

The approach to complete the BDS pricing system for SFD's Non-Financial Services Central Sector (NFSCS) will involve five distinct stages with several sets of activities each. The table below identifies these and outlines a series of methods and cautions to be aware of to help ensure program success.
Note: See page 7 for a weekly schedule.

Stage	Activities	Methods / Cautions
1) Conduct desk review to identify viable cost and pricing methodologies	* Other BDS facilitator best practices and lessons learned for: * Costing and pricing methods * Product / service mix selection * Reach and retention (MSME customers routinely paying for services)	Methods – Internet based research, consultant's previous assignments, donor and service provider databases Cautions – none
2) Review existing NFSCS practices for service delivery including cost / pricing and BDS provider arrangements	* How / why services are selected to offer * How customer feedback / mkt rsrch is done * Obtain SFD direct & indirect cost data * How service costing / pricing is done now * Ways BDS providers are contracted * Also at this stage: collect information from SFD staff about **their knowledge** of Egyptian BDS practices (same questions as in phase 1 desk review above)	Methods – Small core task team and consultant gather internal cost & pricing data and other info during first week on the ground; do this through meetings department representatives and requests for printed reports Cautions – **Interim core task team of 2 people is needed right away nearly full time (prior to final team selection)**
3) Propose & establish SFD task team to help design and implement the new pricing system	* NFSCS management to have a core list of candidates in mind for task team * Consultant to use experience from stage 2 meetings to refine list of task team candidates * Agree on final task team * **Suggest we have:** **1] a small core task team of 2-3 people for intensive work and 2] a larger task team with one staff from each NFSCS department for research assignments, weekly meetings and implementation** * Conduct an awareness and capacity building session for NFSCS staff on guidelines to assess service demand and common pricing methods	Methods – Meet with NFSCS management and agree on task team; bring staff members together for awareness session Cautions – Task team members must be committed, energetic, knowledgeable, influential and have time to devote to the task
4) Develop the new pricing system and the means to implement it	* Identify and propose best BDS cost and pricing methods, do pricing for existing services * Identify and propose best ways to identify market needs and select or eliminate services, build on existing M&E system * Identify and propose any changes to BDS provider relationships, develop cost recovery plan template(s) * Present recommendations to NFSCS management / staff and adjust as	Methods – Internal department meetings; approx 3 field trips to regional offices; meetings with MSME clients; meetings with BSP providers; coalesce desk and face to face research into recommendations; substantial task team involvement at all stages – especially cost recovery plans Cautions – Success requires a

	necessary * Support all recommendations with standard templates and staff capacity building * Have task team prepare cost recovery and roll-out plans for each department	high degree of cooperation (and speed) by NFSCS and finance departments responding to all information requests
5) Finalize all deliverables, reports, tools and templates	* Consultant and task team complete written reports and necessary templates / tools for implementation	Methods – Desk work Cautions – Too many other non-related demands on task team member time can derail this stage

Primary Tools and Templates that will be Delivered

Monitoring tools for existing service quality and possible new service adoption

a) Focus group questionnaire for this assignment and future use
b) Brief questionnaire for annual use with MSMEs to evaluate existing services and determine new services for consideration
c) Revised regional office walk-in questionnaire (from previous assignment)
d) Monitoring guidelines, steps and timing (partly from previous assignment)
e) Service offering assessment tool (with evaluative criteria to determine if new service should be offered or existing service should be continued)

Costing and pricing tools and templates

a) Cost coverage pricing template
b) Cost contribution pricing template
c) Profit pricing template
d) Market based pricing template
e) Departmental cost recovery plan template

Information Required by Source Type

Individual NFSCS Departments – Information Needs

a) Inventory of services offered, those in demand and those not in high demand
b) Existing services that may never be revenue earners but which are believed to be required (for organizational social objectives)
c) Perceived realistic prices for each of the services listed in a and b above
d) Ideas for possible new services, not offered now, believed to be in demand or needed by MSMEs
e) How services for MSMEs are agreed on to offer (new) or stop (if they are already offered) and if SFD's M&E system is involved in making these decisions (if yes, specifically how)
f) How the cost of services is determined (what data and templates are used now)
g) Do regional service delivery differences have a significant impact on cost
h) Pricing objectives for each of the primary types of services offered to MSMEs
    - zero or subsidized price [social good based]
    - breakeven [cost coverage based]
    - fixed % above direct costs [cost contribution based]
    - fixed % above direct and variable costs [profit based]
    - according to pricing of BDS competitors [market based]
    - above other local BDS competitors [quality image based]

i) The different methods for collecting service fees from MSME beneficiaries and when each method is used successfully
    - advance payment for scheduled service/training
    - payment the day a service is provided
    - extended payments (financing)
    - embedded (in loan repayment or the cost of system installation)
    - based on success (% of expanded MSME client sales)
j) Inventory of BDS partners now working with SFD and the contracting mechanisms (fixed fee to BDS supplier, revenue sharing with BDS supplier) with each one
k) Involvement of BDS partners in new services development, pricing of services, marketing and how well these arrangements are working
l) Service delivery problems encountered with BDS suppliers (and are they related to type of contract, geographical location, types of MSME clients, or other)
m) Extent of each department's provision of direct services to MSMEs (no BDS partner involved) and how this decision is made
n) Currently used methods to market and promote services, how successful they are and how is that success measured
o) Inventory of major market competitors (other BDS facilitators and suppliers), their main service lines, how successful they are selling services (at low or premium prices) and their main strengths and weaknesses

<u>SFD Central Finance Department & Information Services Department – Information Needs</u>

a) Direct & indirect organizational cost data and reports currently used to determine NFSCS pricing of services, provide most recent month or quarter each report has been generated
b) A description of the sources of the above data
c) Any pricing templates Finance department uses or instructs NFSCS to use when pricing services
d) The Finance department philosophy for pricing services (what if anything are they telling NFSCS is the minimum to achieve: cost contribution, cost coverage, profit)

<u>Contracted BDS Providers – Information Needs</u>

a) Specialized or multiple service lines
b) Inventory of services offered, those in demand and those not in high demand
c) Ideas for possible new services, not offered now, believed to be in demand or needed by MSMEs
d) Any formal research or feedback loops to decide on new service offerings
e) Major factors considered in offering new types of services for MSMEs (social need, commercial demand, profit potential)
f) Pricing objectives for each of the primary types of services offered to MSMEs
    - zero or subsidized price [social good based]
    - breakeven [cost coverage based]
    - fixed % above direct costs [cost contribution based]
    - fixed % above direct and variable costs [profit based]
    - according to pricing of BDS competitors [market based]
    - above other local BDS competitors [quality image based]

g) The different methods for collecting service fees from MSME beneficiaries and when each method is used successfully
    - advance payment for scheduled service/training
    - payment the day a service is provided
    - extended payments (financing)
    - embedded (in loan repayment or the cost of system installation)
    - based on success (% of expanded MSME client sales)
h) Their contract relationship/mechanism with SFD and how successful it is; improvements needed
i) Service delivery problems encountered (and are they related to SFD relationship, geographical location, types of MSME clients, or other)
j) Currently used methods to market and promote services and how successful they are
k) Their major BDS competitors and their service lines, how successful they are selling services (at low or premium prices), and their main strengths and weaknesses

<u>MSME Clients (collected during field visit focus groups) – Information Needs</u>

a) Demographics (company size, type, location, number of employees, etc.)
b) Sources used to find training, consulting services, B2B assistance, etc. (radio, internet, walk-in to local BDS offices, etc.)
c) BDS providers who have assisted them to date
d) Consulting, training or other nonfinancial services used from other suppliers (not SFD), which were useful (or not) and were they paid or free
e) Consulting, training or other nonfinancial services that SFD provided them, which were useful (or not) and were they paid or free
f) What kind of additional services do they want from SFD – understanding they would have to pay something for the services to cover development and running costs

Work Plan Stages in greater Detail

1) Conduct desk review to identify and select the most promising cost and pricing methodologies for use by SFD NFSCS and their BDS Providers

a) Sources will include past projects the consultant has been involved with as well as international associations, donor agency databases and educational institution resources.

2) Review existing state of service delivery at NFSCS – meet with each NFSCS department individually.

a) Review the overall BDS activities undertaken by SFD over the past 3-5 years.

b) Review the specific types of Business Development Services offered by SFD to MSMEs.
    - Services in demand / not in demand and perceived reasons why.
    - How customer feedback is garnered and used in new service decision-making.

c) Review systems / methods for pricing and cost recovery currently adopted by SFD.
    - Market based pricing? Cost coverage based pricing? A combination of both?
    - Existing cost structure to be provided by NFSCS technical office and department heads.

d) Review existing arrangements between SFD and its BDS providers and the prices set for services.

- Conduct approximately 3 field visits to existing providers to understand modes of operation, services in demand, service delivery problems faced, and local competing BDS practices (including pricing).
- Assess types of partner organization contractual relationships, fee splitting, pricing decision responsibility (between SFD and providers).
- Special attention paid to what has been successful versus what has not worked and why.

e) Compile information into a summary of existing policies and activities, and how they are likely to affect the design of a new cost and pricing system at SFD.

3) Propose and finalize (with management) a multi-departmental NFSCS task team to carry out the design and implementation of a new cost and pricing system, with the consultant's assistance.

a) Select task team members who offer strong sustainability prospects to continue running the system once the consulting assignment has finished. Consultant will use the meetings interaction from phase 2 above to make recommendations for specific individuals.
b) Work with management to ensure individuals proposed are not necessarily those with the most available time but rather those with the highest levels of motivation, knowledge and influence amongst their peers.
c) Brief the task team about the results of the initial review (stage 1 above) including field trips.
d) Assign each task team member to collect more detailed cost and pricing information from their respective departments according to a standard template.
e) Conduct an awareness and capacity building session for NFSCS staff on guidelines to assess service demand and common pricing methods.

4) In close coordination with the task team, develop a concept and proposal for a new system of priced services delivery.

a) Identify and lay out BDS pricing and cost recovery strategies commonly used by international service providers in transitional economies (desk research beforehand).
   - Provide templates and standard methodologies.
   - Build sustainability in task team members in the use of the standard methodologies for ongoing system management and monitoring.

b) Prepare a process to systematically choose and design affordable BDS that are responsive to MSME needs based on monitoring and feedback data collection.
   - Build upon SFD monitoring systems already in place.
   - Involve input from partner organizations (BDS providers).
   - Ensure IT department is strongly represented on the task team.
   - Achieve ongoing concurrence with team and management, adjust as necessary.

c) Design the final draft BDS pricing system allowing for cost recovery.
   - Recommend how to use M&E feedback loops to identify promising new services to offer or existing services to eliminate.

- Decide – again based on M&E data – which services should be offered with a new price/fee attached to them and which ones should be continued but without any fee. Considerations will include their *charge worthiness* and how important they are to SFD's development objectives.
- Use M&E feedback loops to identify realistic price points with consideration to regional differences in client ability to pay as well as the availability of competing BDS services and their prices.
- Offer pricing and cost recovery methodologies best suited for SFD – accurate cost determination, market versus cost-based pricing, fee collection techniques (straight or phased payments, embedded in loans, etc.) and strengths and weaknesses of each approach.
- Propose how to project a concept of high value for services offered, including promotion of services, building excitement in the community, improving credibility.
- Develop cost recovery plans for each department, how they will be implemented, and very importantly, how they will be monitored. Individual task team members will be asked to complete these under guidance of the consultant.
- Develop cost recovery plans, using the cost and pricing system methodology, for contracted BDS providers. These will follow as standard a format as possible, for clarity and consistency, but it may be necessary to have several built-in alternatives that take into account different regional circumstances.
- Recommend revisions (if any) to the split of responsibilities with BDS partner organizations for: new services development, marketing and pricing.

d) Present the draft final system to SFD NFSCS staff and selected management for discussion; adjust as necessary.

e) Hold internal NFSCS task team capacity building meetings to build skills and impart knowledge about the agreed final system [from step d) above] with an emphasis on how it will be implemented and made sustainable.

f) With full NFSCS task team involvement, develop a roll-out (implementation) plan.
   - This will describe how the team will build cost and pricing system capacity in other SFD colleagues, routinely obtain M&E data to make services mix decisions and price the services. The process will begin with the elimination of any clearly unsuccessful and non-chargeable services in each department. This would be followed by market based pricing (cost is known and considered but market conditions take precedence) for existing services in demand within each department. Then any new services agreed upon before consultant's departure will also be priced.
   - The means (or process) to price all new services that follow will also be in place before the consultant's departure.

g) Consultant and NFSCS task team members to deliver a workshop for other NFSCS staff, selected partners and stakeholders to address the new system's purpose and function [items listed in item c) above] – share workshop materials with management before finalizing.

5) Prepare and submit a consultant final report with conclusions and suggestions for top management.

a) All materials developed during this assignment will be provided to SFD in hard copy and electronic formats. All materials from the secondary (desk) research will be provided in electronic format.

Work Plan Schedule with Deliverables

ACTIVITY	JAN 20-21	JAN 24-28	JAN 31-FEB 4	FEB 7-11	FEB 14-18
1) Conduct desk review **to identify viable cost and pricing methodologies**	US based research	Consultant arrives the evening of **Mon, Feb 25** **Deliverable 1: Inception report**	**Deliverable 2: Guidelines to assess service demand and common pricing methods**		
2) Review existing NFSCS practices **for service delivery including cost / pricing and BDS provider arrangements**		Consultant and initial core team (see below) Gather info in meetings with NFSCS, Finance, IT	Consultant and final task team gather info in meetings with NFSCS, Finance, IT and selected BDS providers Start field visits (see next column)	Field visits to meet MSMEs (focus groups) and BDS providers (individually)	
3) Propose & establish SFD task team **to help design and implement the new pricing system**		**Tue, Feb 26** Initial core team of 2 staff are needed right away to assist consultant during first week	**Mon, Feb 1** Final task team selected: a) small core team of 2-3 staff and b) full task team with 1 staff member from each NFSCS department		
4) Develop the new pricing system **and the means to implement it**				**Deliverable 3: Awareness & capacity building session for NFSCS staff: Guidelines to assess service demand and common pricing methods**	**Deliverable 4: Customized cost & pricing templates** **Deliverable 5: Cost & pricing system, cost recovery plans with individual services priced (including factoring in**

					subsidies) and proposed monitoring system **Final pres / workshop Wed, Feb 17?**
5) Finalize all deliverables**, reports, tools and templates**					**Deliverable 6:** **Final report**